

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF CARSON CITY	County MONTCALM
Audit Date 6/30/05	Opinion Date 8/12/05	Date Accountant Report Submitted to State: 10/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

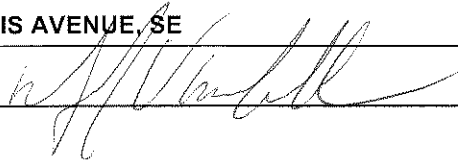
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address 2330 EAST PARIS AVENUE, SE	City GRAND RAPIDS	State MI	ZIP 49546
Accountant Signature 		Date 10/25/05	

CITY OF CARSON CITY



CARSON CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

CITY OF CARSON CITY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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INDEPENDENT AUDITORS' REPORT

August 12, 2005

Honorable Mayor and Members of the City Council
City of Carson City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Carson City, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Carson City, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 12, 2005, on our consideration of the City of Carson City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 and the schedules of funding progress and employer contributions on page 40 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carson City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Carson City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Lohman".

Management's Discussion and Analysis

As management of the City of Carson City, we offer readers of the City of Carson City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005 and 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The City's commitment to public safety was supported by 21 % of governmental expenditures.
- The City obtained a Drinking Water Revolving Fund Loan to improve the water distribution system.
- The City purchased a new pumper/tanker truck for the fire department.
- The City spent over \$500,000 on building improvements to the Library.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Carson City's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Carson City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services.

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Carson City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the following three funds: general, major street, and library.

Data is combined into a single aggregated presentation for the other three governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements and schedules*.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 14-20 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Sewer and Water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its fleet of vehicles. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer and Water operations, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resource of those funds are *not* available to the support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-39 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This includes this management discussion and analysis as well as schedules of funding progress and employer contributions related to the City's pension plan which can be found on page 40 of this report.

Combining and individual fund statements and schedules can be found on pages 41-51 this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Carson City, assets exceeded liabilities by \$7,227,629 at the close of the most recent fiscal year.

A significant portion of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Carson City Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$1,363,777	\$1,809,220	\$1,516,512	\$1,144,112	\$2,880,289	\$2,953,332
Capital assets	1,566,118	936,670	3,711,882	3,629,742	5,278,000	4,566,412
Total assets	2,929,895	2,745,890	5,228,394	4,773,854	8,158,289	7,519,744
Long-term liabilities outstanding	329,455	350,986	167,375	-	496,830	350,986
Other liabilities	223,061	292,156	210,769	38,152	433,830	330,308
Total liabilities	552,516	643,142	378,144	38,152	930,660	681,294
Net assets:						
Invested in capital assets, net						
of related debt	1,283,079	629,053	3,544,507	3,629,742	4,827,586	4,258,795
Restricted	703,217	1,062,476	-	-	703,217	1,062,476
Unrestricted	391,083	411,219	1,305,743	1,105,960	1,696,826	1,517,179
Total net assets	<u>\$2,377,379</u>	<u>\$2,102,748</u>	<u>\$4,850,250</u>	<u>\$4,735,702</u>	<u>\$7,227,629</u>	<u>\$6,838,450</u>

Net assets of the City increased by \$389,179 with both the governmental and business-type activities showing additions to prior balances. The business-type activities increase in net assets of \$114,548 was primarily the result of revenue from operations. The governmental activities increase in net assets of \$274,631 is primarily due to activities in the general fund.

City of Carson City Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program revenue:						
Charges for services	\$ 163,383	\$162,025	\$638,326	\$611,888	\$ 801,709	\$ 773,913
Operating grants and contributions	285,058	128,914	-	-	285,058	128,914
Capital grants and contributions	62,603	29,682	-	-	62,603	29,682
	511,044	320,621	638,326	611,888	1,149,370	932,509
General revenue:						
Property taxes	408,811	381,572	-	-	408,811	381,572
Other governmental sources	142,064	176,968	-	-	142,064	176,968
Other	61,185	40,609	(14,237)	(17,164)	46,948	23,445
Total revenue	<u>1,123,104</u>	<u>919,770</u>	<u>624,089</u>	<u>594,724</u>	<u>1,747,193</u>	<u>1,514,494</u>

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Expenses:						
Legislative	\$ 75,922	\$ 65,456	\$ -	\$ -	\$ 75,922	\$ 65,456
General government	120,294	125,231	-	-	120,294	125,231
Public safety	179,156	216,276	-	-	179,156	216,276
Public works	164,977	178,064	-	-	164,977	178,064
Culture and recreation	292,754	190,237	-	-	292,754	190,237
Interest	15,370	597	-	-	15,370	597
Sewer	-	-	189,708	203,924	189,708	203,924
Water	-	-	319,833	249,672	319,833	249,672
Total expenses	<u>848,473</u>	<u>775,861</u>	<u>509,541</u>	<u>453,596</u>	<u>1,358,014</u>	<u>1,229,457</u>
Increase in net assets	274,631	143,909	114,548	141,128	389,179	285,037
Net assets - beginning of year	<u>2,102,748</u>	<u>1,958,839</u>	<u>4,735,702</u>	<u>4,594,574</u>	<u>6,838,450</u>	<u>6,553,413</u>
Net assets - end of year	<u>\$2,377,379</u>	<u>\$2,102,748</u>	<u>\$4,850,250</u>	<u>\$4,735,702</u>	<u>\$7,227,629</u>	<u>\$6,838,450</u>

Governmental activities

During the year the City continued its emphasis in public safety by investing \$179,156 or 21% of governmental activities expenses. Culture and recreation, which includes library operations was \$292,754 or 35% of governmental activities expenses while general government, public works and streets and interest on long-term debt made up the remaining 44% of governmental activities expenses.

Business-type activities. Business-type activities increased the City's net assets by \$114,548, accounting for 29 percent of the total growth in the government's net assets for the current year. By comparison, business-type activities reported an increase in net assets the previous fiscal year of approximately \$141,128. Key elements of this decrease are as follows:

- Salaries and wages for business-type activities increased by 16 percent, or roughly \$25,591, compared to the prior year. This is a result of increased hours worked on the water and sewer systems.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$862,394, a decrease of \$393,610 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$122,902 which is equal to total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 15 percent of total general fund expenditures.

The fund balance of the City's general fund decreased by \$51,927 during the current fiscal year.

The major street fund has a total fund balance of \$162,868, which increased by \$106,604 during the year. This is due to a decrease in road projects during the year as compared to the prior year.

The library fund has a total fund balance of \$288,887, which decreased by \$492,315 during the year primarily due to payments of a note payable during the year. The balance of this fund is restricted for use as defined by the City Council.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$878,593 and \$259,775, respectively. The sewer fund had an increase in net assets for the year of \$124,403, whereas the water fund had a decrease of \$9,655. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were relatively minor for the year.

During the year, general fund revenues were higher than budgetary estimates and expenditures were higher, resulting in an actual increase in fund balance that exceeded the final amended budget amount by \$109,797.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounted to \$5,278,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, motor pool equipment, motor vehicles, infrastructure and construction in progress, machinery and equipment. Significant capital purchases during the year consisted primarily of infrastructure improvements.

City of Carson City Capital Assets
(net of depreciation)

	<u>Governmental activities</u>	<u>Business- type activities</u>	<u>Total</u>
Land	\$ 158,996	\$ 14,475	\$ 173,471
Construction in progress	-	167,375	167,375
Building improvements	659,451	65,079	724,530
Furniture and equipment	186,800	-	186,800
Motor pool equipment	80,593	-	80,593
Motor vehicles	341,504	-	341,504
Infrastructure	138,774	-	138,774
Mains and equipment	-	3,464,953	3,464,953
	<hr/>	<hr/>	<hr/>
Total	<u>\$1,566,118</u>	<u>\$3,711,882</u>	<u>\$5,278,000</u>

Additional information on the City of Carson City capital assets can be found in Note 5 on pages 34-35 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$496,830 as follows:

	<u>Governmental activities</u>
Accrued employee benefits	\$ 46,416
Notes payable	450,414
	<hr/>
Total	<u>\$496,830</u>

The City's total debt increased by \$145,844 during the current fiscal year.

Additional information on the City's long-term debt can be found in Note 8 on page 38 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2005-06 fiscal year:

- Increased employee wages cost.
- Increased health insurance cost.
- Increased property tax revenue.
- Increases in capital asset activity for the water system due to funding from the Drinking Water Revolving Fund Loan Program.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Comptroller, 123 East Main St., Carson City, Michigan, 48811.

CITY OF CARSON CITY

STATEMENT OF NET ASSETS

JUNE 30, 2005

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets			
Cash and cash equivalents	\$ 915,599	\$ 615,359	\$ 1,530,958
Investments	363,435	674,485	1,037,920
Accounts receivable	15,072	59,293	74,365
Special assessments receivable	1,753	-	1,753
Due from other governments	67,918	167,375	235,293
Capital assets, net			
Land	158,996	14,475	173,471
Construction in progress	-	167,375	167,375
Buildings, equipment and infrastructure, net	1,407,122	3,530,032	4,937,154
Total assets	2,929,895	5,228,394	8,158,289
Liabilities			
Accounts payable and accrued expenses	26,772	208,788	235,560
Unearned revenue	196,289	-	196,289
Customer deposits	-	1,981	1,981
Noncurrent liabilities:			
Due within one year	30,604	-	30,604
Due in more than one year	298,851	167,375	466,226
Total liabilities	552,516	378,144	930,660
Net Assets			
Invested in capital assets, net of related debt	1,283,079	3,544,507	4,827,586
Restricted for:			
Library	288,887	-	288,887
Major streets	162,868	-	162,868
Local steets	254,967	-	254,967
Debt service	(3,505)	-	(3,505)
Unrestricted	391,083	1,305,743	1,696,826
Total net assets	\$ 2,377,379	\$ 4,850,250	\$ 7,227,629

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 75,922	\$ -	\$ -	\$ -	\$ (75,922)
General government	120,294	29,977	119,187	62,603	91,473
Public safety	179,156	36,969	1,396	-	(140,791)
Public works	164,977	4,582	151,216	-	(9,179)
Culture and recreation	292,754	91,855	13,259	-	(187,640)
Interest on long-term debt	15,370	-	-	-	(15,370)
Total governmental activities	<u>848,473</u>	<u>163,383</u>	<u>285,058</u>	<u>62,603</u>	<u>(337,429)</u>
Business-type activities:					
Sewer	189,708	318,837	-	-	129,129
Water	319,833	319,489	-	-	(344)
Total business-type activities	<u>509,541</u>	<u>638,326</u>	<u>-</u>	<u>-</u>	<u>128,785</u>
Total primary government	<u>\$ 1,358,014</u>	<u>\$ 801,709</u>	<u>\$ 285,058</u>	<u>\$ 62,603</u>	<u>\$ (208,644)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

STATEMENT OF ACTIVITIES (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (337,429)	\$ 128,785	\$ (208,644)
General revenues:			
Property taxes			
General operating	320,243	-	320,243
Library	88,568	-	88,568
State shared revenues	142,064	-	142,064
Interest earnings	26,185	20,763	46,948
Transfers	35,000	(35,000)	-
Total general revenues and transfers	612,060	(14,237)	597,823
Change in net assets	274,631	114,548	389,179
Net assets, beginning of year	2,102,748	4,735,702	6,838,450
Net assets, end of year	\$ 2,377,379	\$ 4,850,250	\$ 7,227,629

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2005

	<u>SPECIAL REVENUE FUNDS</u>			NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL	MAJOR STREET	LIBRARY		
<u>ASSETS</u>					
Cash and cash equivalents	\$ 241,049	\$ 111,109	\$ 191,894	\$ 155,575	\$ 699,627
Investments	15,000	40,054	99,211	136,628	290,893
Assessment receivable	-	-	-	1,753	1,753
Due from other governments	51,663	11,696	-	4,559	67,918
Due from other funds	23,994	-	-	-	23,994
<u>TOTAL ASSETS</u>	\$ 331,706	\$ 162,859	\$ 291,105	\$ 298,515	\$ 1,084,185
<u>LIABILITIES AND FUND EQUITY</u>					
<u>LIABILITIES</u>					
Accounts payable and accrued liabilities	\$ 12,515	\$ (9)	\$ 2,218	\$ 103	\$ 14,827
Due to other funds	-	-	-	8,922	8,922
Deferred revenue	196,289	-	-	1,753	198,042
<u>TOTAL LIABILITIES</u>	208,804	(9)	2,218	10,778	221,791
<u>FUND EQUITY</u>					
Fund balances:					
Unreserved:					
Undesignated	122,902	162,868	288,887	-	574,657
Undesignated reported in nonmajor:					
Special Revenue Funds	-	-	-	292,995	292,995
Debt Service Funds (deficit)	-	-	-	(5,258)	(5,258)
<u>TOTAL FUND EQUITY</u>	122,902	162,868	288,887	287,737	862,394
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	\$ 331,706	\$ 162,859	\$ 291,105	\$ 298,515	\$ 1,084,185

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

JUNE 30, 2005

Fund balances - total governmental funds	\$ 862,394
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	1,566,118
Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.	
Add - special assessments deferred revenue	1,753
Internal service funds are used by management to charge the costs of certain activities, such as centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in the governmental activities.	
Add - net assets of governmental activities accounted for in internal service funds	363,364
Deduct - Capital assets accounted for in internal service funds, net of accumulated depreciation	(84,588)
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(46,416)
Deduct - notes payable	(283,039)
Deduct - accrued interest on bonds payable	(2,207)
Net assets of governmental activities	<u>\$ 2,377,379</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL	SPECIAL REVENUE FUNDS		NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
		MAJOR STREET	LIBRARY		
REVENUES					
Taxes and special assessments	\$ 320,243	\$ -	\$ 88,568	\$ 7,544	\$ 416,355
Intergovernmental revenues	262,536	82,233	4,693	26,910	376,372
State grant	-	41,553	-	-	41,553
Fees and service charges	46,638	520	84,820	-	131,978
Contributions	81,774	-	8,566	-	90,340
Interest	22,546	815	7,035	3,851	34,247
Miscellaneous	1,115	-	-	-	1,115
TOTAL REVENUES	734,852	125,121	193,682	38,305	1,091,960
EXPENDITURES					
Current:					
General government	203,060	-	-	-	203,060
Public safety	383,564	-	-	-	383,564
Public works	135,442	8,155	-	6,487	150,084
Recreation and cultural	89,393	-	139,025	-	228,418
Other	320	-	-	-	320
Capital outlay	-	76	517,063	-	517,139
Debt Service:					
Principal	-	-	16,961	7,617	24,578
Interest	-	-	12,948	459	13,407
TOTAL EXPENDITURES	811,779	8,231	685,997	14,563	1,520,570
REVENUES OVER (UNDER) EXPENDITURES	(76,927)	116,890	(492,315)	23,742	(428,610)
OTHER FINANCING SOURCES (USES)					
Transfers in	25,000	-	-	20,286	45,286
Transfers (out)	-	(10,286)	-	-	(10,286)
TOTAL OTHER FINANCING SOURCES (USES)	25,000	(10,286)	-	20,286	35,000
NET CHANGE IN FUND BALANCES	(51,927)	106,604	(492,315)	44,028	(393,610)
FUND BALANCES, BEGINNING OF YEAR	174,829	56,264	781,202	243,709	1,256,004
FUND BALANCES, END OF YEAR	\$ 122,902	\$ 162,868	\$ 288,887	\$ 287,737	\$ 862,394

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ (393,610)

Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	685,285
Deduct - depreciation expense	(61,715)

Special assessments receivable are long-term in nature and are collectable over several
years. However the current receipts are reflected as revenues on the fund statements.

Deduct - special assessment receipts	(7,495)
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Bond proceeds provide current financial resources to governmental funds in the period
issued, but issuing bonds increases long-term liabilities in the statement of net assets.
Repayment of bond principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	24,578
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Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Add - changes in compensated absences	(3,047)
Add - accrued interest	(1,962)

An internal service fund is used by management to charge the costs of certain services
to individual governmental funds. The net revenue (expense) of the fund
is reported with governmental activities.

Add - income from governmental activities in internal service fund	<u>32,597</u>
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Change in net assets of governmental activities	<u>\$ 274,631</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL AMOUNT	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Taxes and special assessments	\$ 319,650	\$ 319,847	\$ 320,243	\$ 396
Intergovernmental revenues	146,800	258,561	262,536	3,975
Fees and service charges	47,950	44,329	46,638	2,309
Contributions	15,000	37,432	81,774	44,342
Interest	6,000	6,700	22,546	15,846
Miscellaneous	6,800	1,068	1,115	47
TOTAL REVENUES	542,200	667,937	734,852	66,915
EXPENDITURES				
Current:				
General government	223,061	200,857	203,060	(2,203)
Public safety	162,525	387,127	383,564	3,563
Public works	123,214	130,338	135,442	(5,104)
Recreation and cultural	38,350	86,019	89,393	(3,374)
Other	8,050	320	320	-
TOTAL EXPENDITURES	555,200	804,661	811,779	(7,118)
REVENUES OVER (UNDER) EXPENDITURES	(13,000)	(136,724)	(76,927)	59,797
OTHER FINANCING SOURCES (USES)				
Transfers in	(25,000)	(25,000)	25,000	50,000
Transfers (out)	(12,000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(37,000)	(25,000)	25,000	50,000
NET CHANGE IN FUND BALANCES	(50,000)	(161,724)	(51,927)	109,797
FUND BALANCES, BEGINNING OF YEAR	174,829	174,829	174,829	-
FUND BALANCES, END OF YEAR	\$ 124,829	\$ 13,105	\$ 122,902	\$ 109,797

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNT	POSITIVE (NEGATIVE)
REVENUES				
State shared revenue	\$ 48,100	\$ 115,145	\$ 82,233	\$ (32,912)
Trunkline maintenance	100	520	520	-
State grant	-	-	41,553	41,553
Interest	1,500	800	815	15
TOTAL REVENUES	49,700	116,465	125,121	8,656
EXPENDITURES				
Public works				
Current:				
Routine maintenance	6,827	4,730	4,446	284
Winter maintenance	4,367	2,987	2,987	-
Maintenance of state trunkline	13,594	681	722	(41)
Capital outlay:				
Construction	13,662	76	76	-
TOTAL EXPENDITURES	38,450	8,474	8,231	243
REVENUES OVER (UNDER) EXPENDITURES	11,250	107,991	116,890	8,899
OTHER FINANCING USES				
Transfers out	(11,250)	(6,500)	(10,286)	(3,786)
NET CHANGE IN FUND BALANCES	-	101,491	106,604	5,113
FUND BALANCES, BEGINNING OF YEAR	56,264	56,264	56,264	-
FUND BALANCES, END OF YEAR	\$ 56,264	\$ 157,755	\$ 162,868	\$ 5,113

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
LIBRARY FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNT	POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 80,000	\$ 88,482	\$ 88,568	\$ 86
State shared revenues	8,500	8,500	4,693	(3,807)
Fees and service charges - penal fines	77,000	84,215	84,820	605
Contributions	-	11,933	8,566	(3,367)
Interest	5,000	7,000	7,035	35
TOTAL REVENUES	170,500	200,130	193,682	(6,448)
EXPENDITURES				
Culture and recreation				
Current:				
Salaries and wages	85,000	86,681	84,544	2,137
Supplies	10,000	8,000	7,723	277
Transportation	1,500	377	377	-
Memberships and dues	4,500	4,101	4,101	-
Professional services	3,000	2,800	2,577	223
Repairs and maintenance	18,000	19,076	19,807	(731)
Utilities	10,000	10,000	11,093	(1,093)
Insurance and bonds	3,500	2,491	2,491	-
Miscellaneous	3,000	5,737	6,312	(575)
Capital outlay	662,000	515,422	517,063	(1,641)
Debt service:				
Principal	-	16,961	16,961	-
Interest	-	12,948	12,948	-
TOTAL EXPENDITURES	800,500	684,594	685,997	(1,403)
REVENUES UNDER EXPENDITURES	(630,000)	(484,464)	(492,315)	(7,851)
OTHER FINANCING SOURCES				
Note proceeds	300,000	-	-	-
NET CHANGE IN FUND BALANCES	(330,000)	(484,464)	(492,315)	(7,851)
FUND BALANCES, BEGINNING OF YEAR	781,202	781,202	781,202	-
FUND BALANCES, END OF YEAR	\$ 451,202	\$ 296,738	\$ 288,887	\$ (7,851)

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2005

<u>ASSETS</u>	<u>BUSINESS-TYPE ACTIVITIES</u>		<u>ENTERPRISE</u>	<u>GOVERNMENTAL</u>
	<u>SEWER</u>	<u>WATER</u>	<u>FUNDS</u>	<u>INTERNAL</u>
			<u>TOTAL</u>	<u>SERVICE</u>
				<u>FUND</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 300,991	\$ 314,368	\$ 615,359	\$ 215,972
Investments	568,459	106,026	674,485	72,542
Due from other governments	-	167,375	167,375	-
Accounts receivable	27,752	31,541	59,293	-
TOTAL CURRENT ASSETS	897,202	619,310	1,516,512	288,514
CAPITAL ASSETS				
Land	14,475	-	14,475	3,996
Buildings	-	80,576	80,576	58,875
Transmission mains and equipment	2,336,690	2,301,580	4,638,270	429,657
Construction in progress	-	167,375	167,375	-
	2,351,165	2,549,531	4,900,696	492,528
Less: Accumulated depreciation	(737,011)	(451,803)	(1,188,814)	(407,940)
NET CAPITAL ASSETS	1,614,154	2,097,728	3,711,882	84,588
<u>TOTAL ASSETS</u>	2,511,356	2,717,038	5,228,394	373,102
<u>LIABILITIES</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	2,906	176,544	179,450	9,738
OTHER LIABILITIES				
Compensated absences	14,669	14,669	29,338	-
Bonds payable	-	167,375	167,375	-
Customer deposits	1,034	947	1,981	-
TOTAL OTHER LIABILITIES	15,703	182,991	198,694	-
TOTAL LIABILITIES	18,609	359,535	378,144	9,738
NET ASSETS				
Investment in capital assets net of related debt	1,614,154	1,930,353	3,544,507	84,588
Unrestricted	878,593	427,150	1,305,743	278,776
<u>TOTAL NET ASSETS</u>	\$ 2,492,747	\$ 2,357,503	\$ 4,850,250	\$ 363,364

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SEWER	WATER	TOTAL	INTERNAL SERVICE FUND
OPERATING REVENUES				
Charges for services	\$ 315,244	\$ 318,489	\$ 633,733	\$ 89,708
Other	3,593	1,000	4,593	-
TOTAL OPERATING REVENUES	318,837	319,489	638,326	89,708
OPERATING EXPENSES				
Salaries and wages	71,368	114,704	186,072	12,652
Office supplies and postage	354	(157)	197	-
Operating supplies	15,695	14,588	30,283	10,005
Professional services	7,588	95,795	103,383	238
Insurance and bonds	14,799	14,799	29,598	-
Public utilities	13,984	21,419	35,403	-
Equipment rentals	19,921	9,738	29,659	872
Repair and maintenance	865	1,119	1,984	12,194
Depreciation	42,450	42,785	85,235	24,789
Miscellaneous	2,684	5,043	7,727	-
TOTAL OPERATING EXPENSES	189,708	319,833	509,541	60,750
OPERATING INCOME	129,129	(344)	128,785	28,958
NON-OPERATING REVENUES				
Interest income	15,074	5,689	20,763	3,639
INCOME BEFORE TRANSFERS	144,203	5,345	149,548	32,597
TRANSFERS				
Transfers (out)	(20,000)	(15,000)	(35,000)	-
CHANGE IN NET ASSETS	124,203	(9,655)	114,548	32,597
NET ASSETS, BEGINNING OF YEAR	2,368,544	2,367,158	4,735,702	330,767
NET ASSETS, END OF YEAR	\$ 2,492,747	\$ 2,357,503	\$ 4,850,250	\$ 363,364

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUND
	SEWER	WATER	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services provided	\$ -	\$ -	\$ -	\$ 89,708
Receipts from customers and users	316,987	317,180	634,167	-
Payments to employees	(67,037)	(110,370)	(177,407)	(13,933)
Payments to suppliers	(79,239)	(162,278)	(241,517)	(30,653)
NET CASH PROVIDED BY OPERATING ACTIVITIES	170,711	44,532	215,243	45,122
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers out	(20,000)	(15,000)	(35,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisitions of capital assets	-	-	-	(30,666)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	-	140,067	140,067	104,315
Purchases of investments	(121,339)	-	(121,339)	-
Interest income	15,074	5,689	20,763	3,639
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(106,265)	145,756	39,491	107,954
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,446	175,288	219,734	122,410
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	256,545	139,080	395,625	93,562
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 300,991	\$ 314,368	\$ 615,359	\$ 215,972
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income	\$ 129,129	\$ (344)	\$ 128,785	\$ 28,958
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	42,450	42,785	85,235	24,789
Change in operating assets and liabilities: which provided (used) cash:				
Accounts receivable	(1,765)	(2,254)	(4,019)	-
Other accrued liabilities	(3,349)	66	(3,283)	(8,625)
Compensated absences	4,331	4,334	8,665	-
Customer deposits	(85)	(55)	(140)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 170,711	\$ 44,532	\$ 215,243	\$ 45,122

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2005

<u>ASSETS</u>	EMPLOYEES RETIREMENT SYSTEM	AGENCY FUND
Cash and cash equivalents	\$ 14,652	\$ 21,431
Investments		
US government securities funds	74,193	-
Bonds funds	125,099	-
Mutual funds	302,605	-
Other	40,042	-
Due from other governmental units	-	147
	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	556,591	\$ 21,578
	<hr/>	<hr/>
 <u>LIABILITIES</u>		
Accounts payable	-	15,917
Due to other governments	-	5,661
	<hr/>	<hr/>
TOTAL LIABILITIES	-	\$ 21,578
	<hr/>	<hr/>
NET ASSETS		
Held in trust for pension benefits	556,591	
	<hr/>	
TOTAL NET ASSETS	\$ 556,591	
	<hr/>	

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY

*STATEMENT OF CHANGES IN NET ASSETS
EMPLOYEES RETIREMENT SYSTEM*

FOR THE YEAR ENDED JUNE 30, 2005

	EMPLOYEES RETIREMENT SYSTEM
ADDITIONS	
Contributions:	
Employer	\$ 30,815
Investment income	<u>35,470</u>
 TOTAL ADDITIONS	 66,285
 DEDUCTION	
Distributions, expenses and benefit payments	<u>5,503</u>
 Net increase (decrease)	 60,782
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>495,809</u>
 End of year	 <u><u>\$ 556,591</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Carson City, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies:

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Carson City. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *Major Streets Fund* is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as major streets in the City.

The *Library Fund* accounts for the operations of the City library. This fund is primarily funded through a county-wide tax levy and penal fines.

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

The City reports the following major proprietary funds:

The *Sewer Enterprise Fund* is used to account for the operations of the City's sewer department that provides sewer services to most residents of the City on a user charge basis.

The *Water Enterprise Fund* is used to account for the operations of the City's water department that provides water services to most residents of the City on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Debt Service Funds* are used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs. The City maintains one Debt Service Fund which is the Parking Fund.

The *Internal Service Funds* are used to record the financing of goods or services by the City to other departments and funds or to other governmental units on a cost reimbursement basis. The City maintains one Internal Service Fund which is the Motor Pool Fund.

The *Trust and Agency Funds* are used to account for assets held in a trustee or agency capacity on behalf of outside parties, including other governments. These include a pension trust and an agency fund.

Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County pays the City, and is responsible for collecting, any outstanding taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which is recognized when due.

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

All Governmental Funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available, spendable resources".

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available, spendable resources" during a period.

All Proprietary Funds and the Pension Trust Fund are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

All Proprietary Funds and the Pension Trust Fund are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and Special Revenue Funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget is adopted by activity.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed during the year ended June 30, 2005. The appropriations ordinances are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. The City did amend its budget for the year ended June 30, 2005. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgets for expenditures are adopted on an activity basis. Budgeted amounts are as originally adopted, or as amended, by the City Council.

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

Statutory Authority

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added in 2005.

CITY OF CARSON CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and Improvements	5-65
Machinery	3-15
Vehicles	5
System Infrastructure	50

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

Special assessment (Debt Service Fund)	\$ 1,753
Parks contribution (General Fund)	178,553
Fire Contracts (General Fund)	<u>17,736</u>
	<u>\$198,042</u>

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes. Real property taxes not collected as of March 1 are turned over to Montcalm County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Comptroller.

Property taxes levied in July of each year are recognized as revenue in that year.

Grants and Other Intergovernmental Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Compensated Absences

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accumulated vacation time of governmental funds is recorded on the statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net assets of the individual enterprise funds.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pension Trust

The Pension Trust Fund balance sheet and operations are presented as of and for the year ended April 30, 2005, the plan year.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2. DEFICIT FUND EQUITY

At June 30, 2005 the City had a deficit fund balance in the Debt Service Fund of \$5,258. Management plans to eliminate the deficit through recognition of future revenues. The deficit elimination plan had not been filed with the State of Michigan as of our report date.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown at the functional level. The approved budgets of the City for these budgetary funds were adopted at the activity level.

During the year ended June 30, 2005, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
General Fund			
General Government			
City Council	\$ 72,489	\$ 75,922	\$(3,433)
Public Safety			
Fire Department	250,682	257,638	(6,956)
Public Works			
Department of Public Works	130,338	135,442	(5,104)
Recreation and Culture	86,019	89,393	(3,374)
Special Revenue			
Major Street Fund			
Maintenance of state trunkline	681	722	(41)
Local Street Fund			
Winter Maintenance	3,286	3,289	(3)
Library			
Culture and Recreation	684,594	685,997	(1,403)

4. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 915,599	\$ 615,359	\$ 36,083	\$1,567,041
Investments	363,435	674,485	541,939	1,579,859
	<u>\$1,279,034</u>	<u>\$1,289,844</u>	<u>\$578,022</u>	<u>\$3,146,900</u>

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

These deposits are in three (3) financial institutions located in Michigan. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value.

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following deposits and investments:

Investments

	Maturity	Fair Value	Rating
Washington Mutual Investors Fund	N/A	\$ 89,884	3
Income Fund of America	N/A	212,721	4
Bond Fund of America	N/A	125,099	4
U.S. Government Securities Fund	N/A	74,193	3
CSV Life Insurance	N/A	40,042	N/A

The above investments do not include certificates of deposit which are classified as investments for financial statement purposes as their original maturity date is greater than three months.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City's specific financial institutions, qualified mutual funds qualified external investment pools as identified in Note 1 of the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment is identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$2,884,450 of the City's bank balance of \$3,184,450 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$541,939 investments the City has a custodial credit risk expense of \$441,939 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Of the above mutual fund investments the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the City's investments are in mutual funds and certificates of deposit. All investments held at year-end are reported above.

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 158,996	\$ -	\$ -	\$ 158,996
Construction in progress	<u>53,460</u>	<u>-</u>	<u>(53,460)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>212,456</u>	<u>-</u>	<u>(53,460)</u>	<u>158,996</u>
Capital assets, being depreciated:				
Buildings and improvements	799,024	463,943	-	1,262,967
Furniture and equipment	497,924	59,914	-	557,838
Motor pool equipment	412,491	30,667	(13,500)	429,658
Motor vehicles	430,907	214,888	(80,000)	565,795
Infrastructure	<u>143,068</u>	<u>-</u>	<u>-</u>	<u>143,068</u>
Total capital assets, being depreciated	<u>2,283,414</u>	<u>769,412</u>	<u>(93,500)</u>	<u>2,959,326</u>
Less accumulated depreciation for:				
Buildings and improvements	587,752	15,764	-	603,516
Furniture and equipment	351,889	19,149	-	371,038
Motor pool equipment	337,776	24,789	(13,500)	349,065
Motor vehicles	280,351	23,940	(80,000)	224,291
Infrastructure	<u>1,432</u>	<u>2,862</u>	<u>-</u>	<u>4,294</u>
Total accumulated depreciation	<u>1,559,200</u>	<u>86,504</u>	<u>(93,500)</u>	<u>1,552,204</u>
Net capital assets, being depreciated	<u>724,214</u>	<u>682,908</u>	<u>-</u>	<u>1,407,122</u>
Governmental activities capital assets, net	<u>\$ 936,670</u>	<u>\$ 682,908</u>	<u>\$ (53,460)</u>	<u>\$ 1,566,118</u>

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 14,475	\$ -	\$ -	\$ 14,475
Construction in Progress	<u>-</u>	<u>167,375</u>	<u>-</u>	<u>167,375</u>
Total capital assets, not being depreciated	<u>14,475</u>	<u>167,375</u>	<u>-</u>	<u>181,850</u>
Capital assets, being depreciated:				
Buildings and improvements	80,576	-	-	80,576
Mains and equipment	<u>4,638,270</u>	<u>-</u>	<u>-</u>	<u>4,638,270</u>
Total capital assets, being depreciated	<u>4,718,846</u>	<u>-</u>	<u>-</u>	<u>4,718,846</u>
Less accumulated depreciation for:				
Buildings and improvements	13,551	1,946	-	15,497
Mains and equipment	<u>1,090,028</u>	<u>83,289</u>	<u>-</u>	<u>1,173,317</u>
Total accumulated depreciation	<u>1,103,579</u>	<u>85,235</u>	<u>-</u>	<u>1,188,814</u>
Net capital assets, being depreciated	<u>3,615,267</u>	<u>(85,235)</u>	<u>-</u>	<u>3,530,032</u>
Business-type activities capital assets, net	<u>\$3,629,742</u>	<u>\$ 82,140</u>	<u>\$ -</u>	<u>\$3,711,882</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 4,632
Public works	19,699
Parks and recreation	11,747
Public safety	<u>25,637</u>
	61,715
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>24,789</u>

Total depreciation expense – governmental activities \$86,504

Business-type activities:

Sewer	\$42,450
Water	<u>42,785</u>

Total depreciation expense – business-type activities \$85,235

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

6. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2005 are as follows:

	<u>Transfers In by Fund</u>		
	<u>General Fund</u>	<u>Non- Major Funds</u>	<u>Total</u>
Major Street	\$ -	\$10,286	\$10,286
Sewer	15,000	5,000	20,000
Water	10,000	5,000	15,000
	<u>\$25,000</u>	<u>\$20,286</u>	<u>\$45,286</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the City of Carson City Pension Plan, a single employer contributory defined benefit pension plan. All full-time employees over the age of 21 are eligible to participate in the System.

Membership of the Plan consists of one terminated participant not yet receiving benefits and nine active plan members at the date of the latest actuarial valuation (May 1, 2002).

Basis of Accounting

The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments.

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Benefits Provided

Employees who retire at age 65 (normal retirement) with 3 or more years of service or at age 55 with 10 or more years of service are entitled to retirement benefits payable monthly. Normal retirement benefits are equal to 1% per year of service times the highest 5 year average salary over the 10 years prior to retirement. Benefits vest 20% per year after three years (100% after seven years). The accrued retirement benefit is actuarially reduced for each year by which early retirement precedes normal retirement. The Plan also provides for death benefits.

Contributions

The City has responsibility for making actuarially determined contributions to the Plan. Employees are not required to contribute to the Plan.

The funding objective of the Plan is to establish and receive contributions, expressed as a percentage of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens. The contribution rate for normal cost is determined using an "individual spread gain" actuarial cost method and, further, follows the "level contribution method" as required by Michigan law. The actuarial assumptions are the same as used to compute the standardized measure of the Net Pension Obligation. The plan provisions and contribution requirements of plan members and the City are established and may be amended by City Council. The City is required to contribute at an actuarially determined rate; the current rate is 10.0% of annual covered payroll.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution (equal to annual pension cost)	\$30,815
Contributions made	<u>(30,815)</u>
Increase (decrease) in net pension obligation	-
Net pension obligation beginning of year	<u>-</u>
Net pension obligation end of year	<u>\$ -</u>

The annual required contribution for the current year was determined as part of the May 1, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7% pre-retirement and 5% post retirement investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4% per year. Both (a) and (b) included an inflation component of 0%.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$23,704	100%	\$ -
6/30/04	26,840	100%	-
6/30/05	30,815	100%	-

A separate financial report of the Plan has not been issued.

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

8. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
<i>Governmental Activities</i>					
\$56,000, Commercial promissory note to Independent Bank. Payments due in annual installments of \$7,960 through April 7, 2005; interest at 7.25%	\$ 7,617	\$ -	\$ (7,617)	\$ -	\$ -
\$300,000, note to ACI Finance, Series 2000. Payments due in annual installments of \$17,000 to \$33,000 through May 1, 2016; interest at 4.68%	300,000	-	(16,961)	283,039	19,000
Total governmental activities	307,617	-	(24,578)	283,039	19,000
Accrued employee benefits	43,369	3,047	-	46,416	11,604
Total governmental activities	350,986	3,047	(24,578)	329,455	30,604
<i>Business-type Activities</i>					
Drinking Water Revolving Fund Loan; interest at 2.125%	-	167,375	-	167,375	-
Total business-type activities	-	167,375	-	167,375	-
Total	\$350,986	\$170,422	\$(24,578)	\$496,830	\$30,604

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2004 are as follows:

<u>Year Ended June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 19,000	\$15,919
2007	86,000	15,912
2008	87,000	13,559
2009	60,375	11,141
2010	24,000	9,266
2011-2015	141,000	28,361
2016	33,039	1,544
Total	\$450,414	\$95,703

CITY OF CARSON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

9. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables of individual funds at June 30, 2005, were:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General Fund	\$23,994	\$ -
Special Revenue Funds:		
Local Street Fund	-	53
Debt Service Fund:		
Parking Fund	-	8,869
Trust and Agency Fund:		
Imprest Payroll	-	15,072
Totals	<u>\$23,994</u>	<u>\$23,994</u>

10. COMMITMENTS

The City has construction commitments related to water distribution system improvements totaling \$555,867 at June 30, 2005.

* * * * *

CITY OF CARSON CITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b)-(a)
5/1/94	\$280,896	\$284,896	\$ 4,000	98.5%	\$277,398	1.4%
5/1/95	296,274	215,347	(80,927)	137.6	222,759	(36.3)
5/1/96	304,041	235,779	(68,262)	129.0	214,870	(31.8)
5/1/97	358,147	262,754	(95,393)	136.3	237,511	(40.2)
5/1/98	448,622	292,918	(155,704)	153.2	240,222	(64.8)
5/1/99	561,309	440,021	(121,288)	127.6	220,810	(54.9)
5/1/00	594,942	496,426	(98,516)	122.4	256,773	(38.4)
5/1/02	492,776	415,483	(67,293)	118.6	262,085	(25.7)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended April 30	Annual Required Contribution	Actual Contributions	Percent Contributed
1996	\$22,443	\$22,443	100%
1997	24,106	24,106	100
1998	23,753	23,753	100
1999	23,270	23,270	100
2000	28,330	28,330	100
2001	25,279	25,279	100
2002	27,416	27,416	100
2003	23,704	23,704	100
2004	26,840	26,840	100
2005	30,815	30,815	100

CITY OF CARSON CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

	SPECIAL REVENUE		DEBT	
	LOCAL	COMPENSATED	SERVICE	TOTAL
	STREET	ABSENCES		
ASSETS				
Cash and cash equivalents	\$ 113,936	\$ 38,028	\$ 3,611	\$ 155,575
Investments	136,628	-	-	136,628
Assessment receivable	-	-	1,753	1,753
Due from other governments	4,559	-	-	4,559
TOTAL ASSETS	\$ 255,123	\$ 38,028	\$ 5,364	\$ 298,515
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 103	\$ -	\$ -	\$ 103
Due to other funds	53	-	8,869	8,922
Deferred revenue	-	-	1,753	1,753
TOTAL LIABILITIES	156	-	10,622	10,778
FUND EQUITY				
Fund balances:				
Unreserved:				
Undesignated (deficit)	254,967	38,028	(5,258)	287,737
TOTAL FUND EQUITY (DEFICIT)	254,967	38,028	(5,258)	287,737
TOTAL LIABILITIES AND FUND EQUITY	\$ 255,123	\$ 38,028	\$ 5,364	\$ 298,515

CITY OF CARSON CITY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE			
	LOCAL STREET	COMPENSATED ABSENCES	DEBT SERVICE	TOTAL
REVENUES				
Taxes and special assessments	\$ -	\$ -	\$ 7,544	\$ 7,544
State shared revenues	26,910	-	-	26,910
Interest	3,767	81	3	3,851
 TOTAL REVENUES	 30,677	 81	 7,547	 38,305
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	6,487	-	-	6,487
Recreation and cultural	-	-	-	-
Downtown development	-	-	-	-
Other	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	7,617	7,617
Interest	-	-	459	459
 TOTAL EXPENDITURES	 6,487	 -	 8,076	 14,563
REVENUES OVER (UNDER) EXPENDITURES	24,190	81	(529)	23,742
OTHER FINANCING SOURCES (USES)				
Transfers in	10,286	10,000	-	20,286
 NET CHANGE IN FUND BALANCES	 34,476	 10,081	 (529)	 44,028
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	220,491	27,947	(4,729)	243,709
FUND BALANCES (DEFICIT), END OF YEAR	\$ 254,967	\$ 38,028	\$ (5,258)	\$ 287,737

CITY OF CARSON CITY
LOCAL STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNT	POSITIVE (NEGATIVE)
REVENUES				
State shared revenue	\$ 18,000	\$ 28,580	\$ 26,910	\$ (1,670)
Interest	3,000	3,800	3,767	(33)
TOTAL REVENUES	21,000	32,380	30,677	(1,703)
EXPENDITURES				
Public works				
Current:				
Routine maintenance	7,304	3,248	3,198	50
Winter maintenance	3,048	3,286	3,289	(3)
Capital Outlay:				
Construction	21,898	-	-	-
TOTAL EXPENDITURES	32,250	6,534	6,487	47
REVENUES OVER (UNDER) EXPENDITURES	(11,250)	25,846	24,190	(1,656)
OTHER FINANCNG SOURCES				
Transfers in	11,250	6,077	10,286	4,209
NET CHANGE IN FUND BALANCES	-	31,923	34,476	2,553
FUND BALANCE, BEGINNING OF YEAR	220,491	220,491	220,491	-
FUND BALANCE, END OF YEAR	\$ 220,491	\$ 252,414	\$ 254,967	\$ 2,553

CITY OF CARSON CITY

**COMPENSATED ABSENCES FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL AMOUNT	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Interest	\$ -	\$ 80	\$ 81	\$ 1
EXPENDITURES				
General government	\$ 10,000	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	80	81	1
OTHER FINANCNG SOURCES				
Transfers in	10,000	10,000	10,000	-
NET CHANGE IN FUND BALANCES	10,000	10,080	10,081	1
FUND BALANCE, BEGINNING OF YEAR	27,947	27,947	27,947	-
FUND BALANCE, END OF YEAR	\$ 37,947	\$ 38,027	\$ 38,028	\$ 1

CITY OF CARSON CITY
GENERAL FUND
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNT	POSITIVE (NEGATIVE)
REVENUES				
Taxes:				
Current property taxes	\$ 319,650	\$ 319,847	\$ 320,243	\$ 396
Intergovernmental revenues:				
Federal grants	-	111,799	111,799	-
State shared revenues	146,800	146,762	150,737	3,975
	146,800	258,561	262,536	3,975
Fees and service charges:				
Fire contracts	18,000	17,736	17,736	-
Rent	20,900	22,839	24,753	1,914
Licenses and permits	2,050	254	257	3
Court costs	7,000	3,500	3,892	392
	47,950	44,329	46,638	2,309
Contributions:				
Contributions from county and township for purchase of fire truck and ambulance	15,000	36,907	19,171	(17,736)
Contributions from Fort Frontier for city parks	-	525	62,603	62,078
	15,000	37,432	81,774	44,342
Interest	6,000	6,700	22,546	15,846
Miscellaneous	6,800	1,068	1,115	47
	12,800	7,768	23,661	15,893
TOTAL REVENUES	\$ 542,200	\$ 667,937	\$ 734,852	\$ 66,915

CITY OF CARSON CITY

*GENERAL FUND
SCHEDULE OF EXPENDITURES BY ACTIVITY - COMPARED TO BUDGET*

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNT	POSITIVE (NEGATIVE)
GENERAL GOVERNMENT				
CITY COUNCIL				
Salaries and wages	\$ 10,403	\$ 10,000	\$ 12,749	\$ (2,749)
Professional services	5,000	6,170	6,170	-
Audit	13,700	12,250	12,250	-
Insurance and bonds	30,000	29,400	29,398	2
Memberships and dues	6,600	6,373	6,373	-
Contributions - other	1,250	500	500	-
Education	300	129	129	-
Miscellaneous	13,416	7,667	8,353	(686)
	80,669	72,489	75,922	(3,433)
CITY ADMINISTRATOR				
Salaries and wages	32,678	11,690	11,393	297
Professional services	500	90	90	-
Office supplies	500	720	745	(25)
Memberships and dues	150	100	100	-
Equipment	1,000	-	-	-
Miscellaneous	1,950	1,746	1,504	242
	36,778	14,346	13,832	514
ELECTION COMMISSION				
Salaries and wages	1,120	1,469	1,469	-
Professional services	1,000	629	(60)	689
Operating supplies	400	987	1,011	(24)
Printing and publishing	525	3	3	-
	3,045	3,088	2,423	665
ASSESSOR				
Salaries and wages	9,508	931	931	-
Printing and publishing	1,100	2,039	2,039	-
Professional services	2,000	12,940	12,940	-
Repairs and maintenance	-	510	510	-
Miscellaneous	565	1,101	1,101	-
	13,173	17,521	17,521	-
COMPTROLLER				
Salaries and wages	66,271	68,463	67,761	702
Office supplies	2,000	3,000	3,018	(18)
Operating supplies	500	500	277	223
Communications	4,500	4,200	4,265	(65)
Printing and publishing	2,500	2,200	1,554	646
Memberships and dues	175	85	85	-
Public utilities	7,000	6,500	6,815	(315)
Miscellaneous	2,000	5,091	6,130	(1,039)
Professional services	2,000	1,128	1,254	(126)
Equipment	2,000	2,000	1,960	40
	450	246	243	3
	89,396	93,413	93,362	51
TOTAL GENERAL GOVERNMENT	223,061	200,857	203,060	(2,203)

(Continued)

CITY OF CARSON CITY

GENERAL FUND
 SCHEDULE OF EXPENDITURES BY ACTIVITY - COMPARED TO BUDGET
 (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL AMOUNT	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
PUBLIC SAFETY				
POLICE DEPARTMENT				
Salaries and wages	\$ 107,125	\$ 117,350	\$ 113,383	\$ 3,967
Office supplies	600	400	391	9
Operating supplies	750	700	678	22
Uniforms	950	800	912	(112)
Professional services	6,000	4,600	4,518	82
Repairs and maintenance	1,500	1,500	1,623	(123)
Gas and oil	1,800	2,800	2,725	75
Equipment	6,000	5,000	(1,767)	6,767
Communications	1,700	1,900	2,002	(102)
Miscellaneous	1,000	1,395	1,461	(66)
	127,425	136,445	125,926	10,519
FIRE DEPARTMENT				
Salaries and wages	16,595	16,987	16,987	-
Operating supplies	2,055	2,026	1,639	387
Communications	1,700	1,272	1,272	-
Gas and oil	450	900	1,004	(104)
Insurance and bonds	200	200	200	-
Utilities	1,500	1,500	1,500	-
Repairs and maintenance	4,000	2,000	1,529	471
Building rent	2,000	2,000	2,000	-
Equipment	5,000	221,844	229,492	(7,648)
Miscellaneous	1,600	1,953	2,015	(62)
	35,100	250,682	257,638	(6,956)
TOTAL PUBLIC SAFETY	162,525	387,127	383,564	3,563
PUBLIC WORKS				
DEPARTMENT OF PUBLIC WORKS				
Salaries and wages	60,514	52,925	52,286	639
Operating supplies	6,000	3,000	2,713	287
Communications	2,000	1,200	1,143	57
Professional services	7,500	10,000	11,061	(1,061)
Utilities	20,000	22,500	24,330	(1,830)
Repairs and maintenance	2,500	2,885	2,885	-
Equipment rentals	20,000	37,800	40,996	(3,196)
Miscellaneous	4,700	28	28	-
	123,214	130,338	135,442	(5,104)
TOTAL DEPARTMENT OF PUBLIC WORKS	123,214	130,338	135,442	(5,104)
RECREATION AND CULTURAL				
PARKS				
Contracted services	18,150	33,547	35,623	(2,076)
Repairs and maintenance	20,200	52,472	53,770	(1,298)
	38,350	86,019	89,393	(3,374)
TOTAL RECREATION AND CULTURAL	38,350	86,019	89,393	(3,374)

(Continued)

CITY OF CARSON CITY

*GENERAL FUND
SCHEDULE OF EXPENDITURES BY ACTIVITY - COMPARED TO BUDGET
(CONTINUED)*

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL AMOUNT	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
OTHER				
MASTER PLAN DEPARTMENT				
Professional service	\$ 6,000	\$ -	\$ -	\$ -
RENTAL HOUSING				
Professional service	2,050	320	320	-
TOTAL OTHER	8,050	320	320	-
TOTAL EXPENDITURES	\$ 555,200	\$ 804,661	\$ 811,779	\$ (7,118)

(Concluded)

CITY OF CARSON CITY

MAJOR STREET FUND
SCHEDULE OF EXPENDITURES - BY ACTIVITY - COMPARED TO BUDGET

FOR THE YEAR ENDED JUNE 30, 2005

EXPENDITURES	BUDGET AMOUNTS		ACTUAL AMOUNT	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Construction				
Salaries and wages	\$ 2,210	\$ 51	\$ 51	\$ -
Repairs, maintenance and resurfacing	200	-	-	-
Professional services	2,000	-	-	-
Supplies	8,252	-	-	-
Equipment rentals	1,000	25	25	-
	13,662	76	76	-
Routine maintenance				
Salaries and wages	1,127	1,730	1,574	156
Repairs, maintenance and resurfacing	2,000	1,200	1,062	138
Professional services	1,500	1,000	990	10
Insurance & bonds	200	-	-	-
Equipment rental	2,000	800	820	(20)
	6,827	4,730	4,446	284
Winter maintenance				
Salaries and wages	1,867	1,108	1,108	-
Repairs & Maintenance Supplies	1,000	318	318	-
Equipment rental	1,500	1,561	1,561	-
	4,367	2,987	2,987	-
Maintenance of state trunkline				
Surface maintenance	10,437	83	124	(41)
Sweeping and flushing	700	100	100	-
Shoulder maintenance	364	13	13	-
Trees and shrubs	182	-	-	-
Drainage and backslopes	390	66	66	-
Grass and weed control	471	23	23	-
Traffic signs	271	-	-	-
Winter maintenance	779	396	396	-
	13,594	681	722	(41)
TOTAL MAJOR STREET EXPENDITURES	\$ 38,450	\$ 8,474	\$ 8,231	\$ 243

CITY OF CARSON CITY
LOCAL STREET FUND
SCHEDULE OF EXPENDITURES - BY ACTIVITY - COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL AMOUNT	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
EXPENDITURES				
Construction				
Salaries and wages	\$ 3,020	\$ -	\$ -	\$ -
Equipment rental	2,500	-	-	-
Operating supplies	12,898	-	-	-
Professional services	3,480	-	-	-
	21,898	-	-	-
Routine maintenance				
Salaries and wages	2,228	695	672	23
Repairs and maintenance supplies	3,217	1,200	1,062	138
Professional services	500	1,000	990	10
Insurance & bonds	150	-	-	-
Equipment rental	1,209	353	474	(121)
	7,304	3,248	3,198	50
Winter maintenance				
Salaries and wages	1,448	1,862	1,865	(3)
Repairs and maintenance supplies	600	318	318	-
Equipment rental	1,000	1,106	1,106	-
	3,048	3,286	3,289	(3)
TOTAL LOCAL STREET FUND EXPENDITURES	\$ 32,250	\$ 6,534	\$ 6,487	\$ 47

CITY OF CARSON CITY

ALL AGENCY FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2005

	<u>AGENCY FUNDS</u>		
	<u>IMPREST</u>	<u>TAX</u>	<u>TOTAL</u>
	<u>PAYROLL</u>	<u>TRUST</u>	
<u>ASSETS</u>	<u>FUND</u>	<u>FUND</u>	
Cash	\$ 21,431	\$ -	\$ 21,431
Due from other governmental units	-	147	147
<u>TOTAL ASSETS</u>	<u>\$ 21,431</u>	<u>\$ 147</u>	<u>\$ 21,578</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts payable	\$ 15,770	\$ 147	\$ 15,917
Due to other governments	5,661	-	5,661
<u>TOTAL LIABILITIES</u>	<u>\$ 21,431</u>	<u>\$ 147</u>	<u>\$ 21,578</u>



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

August 12, 2005

Honorable Mayor and Members of the City Council
City of Carson City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carson City, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Carson City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Carson City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.